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UNCLAS SECTION 01 OF 02 SANTIAGO 002322

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PLEASE PASS TO USTR FOR MARY SULLIVAN
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E.O. 12958: N/A

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SUBJECT: CHILE ANNOUNCES FTA WITH CHINA: A FIRST LOOK

REF: SANTIAGO 1794

1. (SBU) Summary. On November 4, Carlos Furche, Director General of Economic Relations at the Chilean MFA, made the first public presentation of the just-announced Chile-China Free Trade Agreement. Furche explained that Chile's interest in the FTA was based on the expectation of continued strong Chinese economic growth, the need to increase foreign investment in Chile's own economy and the recognition that Chile must diversify its exports. He said Chile-China trade represented 11 percent of Chile's overall trade in 2004, and he expected China to emerge as Chile's number two trading partner -- after the U.S. -- by the end of 2005. In a separate talk with econoff, Furche said that he did not foresee significant domestic opposition to the FTA, with ratification and implementation of the FTA expected by July 2006. End Summary.

Chile Is Betting on Continued High Chinese Growth

2. (U) On October 28, the Government of Chile (GOC) officially announced that it and China had completed their fifth and final round of negotiations for a Free Trade Agreement. Public sources and our own contacts in the GOC expect the FTA to be signed on November 17 on the margins of the APEC meeting in Korea. On November 4, before an audience of Chilean business leaders assembled by SOFOFA, the largest association of Chilean manufacturers, Director General of Economic Relations Carlos Furche from Chile's Ministry of Foreign Affairs and the GOC's main FTA negotiator laid out the reasons behind Chile's pursuit of an FTA with China. He said Chile had been driven by the mantra of acquiring the best access in the shortest amount of time. Negotiations were begun in January 2005 and the fifth and final round concluded in October in Beijing. Furche expects the FTA to come into force by July 2006.

3. (U) Furche explained that GOC thinking was driven by three main factors. First, the GOC assumed that China would continue to achieve growth rates significantly higher than the rest of the world for the next two decades. (Note: Furche told econoff separately that Chile was betting on China averaging six percent real GDP growth over the next twenty years and to become the major source of growth in the world's economy.) Second, he said that Chile has achieved its goal of tapping into international trade through its web of FTAs. With that accomplished, Chile now needed to attract more foreign direct investment to continue its development. Chile believed that the China FTA would lead to greater investment. Third, Furche said Chile had to export more non-traditional goods such as agricultural products, wine, chemicals and manufactured items. He said that trade with China in recent years was already trending towards non-traditional exports. In 2005, while copper still represented 80 percent of Chile's exports to China, non-traditional exports to China were up over the last four years by nearly 200 percent. The FTA would guarantee access to the Chinese market for many of these non-traditional exports.

Trade Ties Already Growing

4. (SBU) Even before the FTA, trade between Chile and China has been growing rapidly. In 2004, China was Chile's number three trading partner. This year it will be number two. Furche cited figures for the first half of 2005 that had Chilean exports to China up by 70.3 percent and imports from China up by 40.6 percent. He called the Chinese FTA a key addition to Chile's strategy of setting up a web of formal trade agreements. He said it would help diversify Chile's economy by promoting the growth of non-traditional exports as well.

5. (C) Furche said this FTA was the first that China had pursued outside of Asia and it offered the chance to tie South America into Asia's economies. Chile wants to be that platform for Asian investment in the region. To that end, the China FTA will join agreements Chile has already reached with South Korea, Singapore and New Zealand. Furche told econoff he hoped that Japan would formally announce its

interest in starting FTA negotiations at the November APEC summit. He added that after APEC, he would travel to India for trade talks. He did not offer details other than to say that Chile would like to pursue a full FTA with India but the Indians are not interested at this time.

16. (SBU) Under the FTA, over 90 percent of Chile's current exports to China will receive duty free access right away. Other products, like wine, face a phase-in period of ten years. Only about one percent of Chilean products were excluded from the terms of the FTA. Furche said the agreement did not cover much beyond just trade. Science and technology, education, tourism, IPR and investment were intentionally left out to complete the agreement rapidly. He said these topics were subject to future discussion and/or agreement. Furche told econoff that one such adjunct agreement had already been signed by Chile and China, a labor cooperation agreement, on November 3.

Ratification Not an Obstacle -----

17. (SBU) After signing, the FTA will need to be ratified by the Chilean Congress. Furche told econoff that he did not expect any significant opposition to it. While some might fear a flood of Chinese imports, particularly textiles, Furche said there was little current protection against such imports now, with Chilean duties averaging just six percent. If the encouraging questions and comments that Furche received after his public presentation on November 4 were any indication, there is strong domestic support for formalizing the trade relationship with China.

18. (SBU) Comment: There is a broad domestic consensus on the importance of this type of FTA to Chile's future. That Chile's trade relationship with China is of growing importance is also self-evident. The GOC recognizes that this FTA is much narrower than the U.S.-Chilean FTA, but it does achieve important goals such as securing access for current exports and improving Chile's position for future exports of Chinese investment.
KELLY